

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

WISCONSIN ENERGY CORPORATION,)
INTEGRYS ENERGY GROUP, INC.,)
PEOPLES ENERGY, LLC, THE PEOPLES)
GAS LIGHT AND COKE COMPANY,)
NORTH SHORE GAS COMPANY, ATC)
MANAGEMENT INC., and AMERICAN)
TRANSMISSION COMPANY LLC)

)
Application pursuant to Section 7-204 of the)
Public Utilities Act for authority to engage in a)
Reorganization, to enter into agreements with)
affiliated interests pursuant to Section 7-101, and)
for such other approvals as may be required)
under the Public Utilities Act to effectuate the)
Reorganization.)

Docket No. 14-_____

Direct Testimony of

JAMES F. SCHOTT

Executive Vice President and Chief Financial Officer –

IntegrYS Energy Group, Inc.

On Behalf of

IntegrYS Energy Group, Inc.

TABLE OF CONTENTS

| | | |
|-------------|--|-----------|
| I. | INTRODUCTION AND BACKGROUND | 1 |
| A. | Witness Identification..... | 1 |
| B. | Purpose of Testimony | 1 |
| C. | Summary of Conclusions..... | 2 |
| D. | Itemized Attachments to Direct Testimony | 2 |
| E. | Background and Experience..... | 3 |
| II. | OVERVIEW OF INTEGRYS | 3 |
| III. | THE REORGANIZATION WILL NOT DIMINISH THE GAS COMPANIES' ABILITY TO PROVIDE ADEQUATE, RELIABLE, EFFICIENT, SAFE, AND LEAST-COST SERVICE TO THEIR CUSTOMERS | 6 |
| IV. | ACCELERATED MAIN REPLACEMENT PROGRAM..... | 8 |
| V. | THE REORGANIZATION WILL NOT HAVE A SIGNIFICANT ADVERSE EFFECT ON COMPETITION IN ILLINOIS..... | 9 |
| VI. | FORECASTS OF CAPITAL REQUIREMENTS FOR THE GAS COMPANIES | 11 |
| VII. | CONCLUSION | 12 |

1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Identification**

3 **Q. Please state your name and business address.**

4 A. My name is James F. Schott. My business address is Integrys Energy Group, Inc., 200
5 East Randolph Street, Chicago, Illinois 60601.

6 **Q. By whom and in what capacity are you employed?**

7 A. I am the Executive Vice President and Chief Financial Officer of Integrys Energy Group,
8 Inc. (“Integrys”).

9 **Q. What are your duties in your position as Executive Vice President and Chief**
10 **Financial Officer of Integrys?**

11 A. I provide executive leadership direction and support to all accounting, finance, and
12 regulatory affairs functions of Integrys.

13 **B. Purpose of Testimony**

14 **Q. What is the purpose of your testimony in this proceeding?**

15 A. My direct testimony will: (1) provide an overview of Integrys, including the operations
16 of The Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas
17 Company (“North Shore”) (collectively, the “Gas Companies”); (2) discuss how the
18 acquisition of Integrys by Wisconsin Energy Corporation (“Wisconsin Energy”) (the
19 “Transaction”), and its impact on Peoples Gas and North Shore (the “Reorganization”),
20 will not diminish the Gas Companies’ ability to provide adequate, reliable, efficient, safe,
21 and least-cost service to their customers; (3) provide an overview of Peoples Gas’
22 Accelerated Main Replacement Program; (4) discuss the Gas Companies’ transportation

23 and retail choice programs, and how the Reorganization will not have any significant
24 adverse effect on those programs or competition in the markets over which the Illinois
25 Commerce Commission (the “Commission”) has jurisdiction; and (5) provide five-year
26 forecasts of the capital requirements for the Gas Companies.

27 **C. Summary of Conclusions**

28 **Q. Please summarize the conclusions of your direct testimony.**

29 A. Based upon the plan for the Reorganization and commitments provided by Wisconsin
30 Energy, the Reorganization will have no impact on the day-to-day operations of the Gas
31 Companies, and will not diminish the Gas Companies’ ability to provide adequate,
32 reliable, efficient, safe, and least-cost service to their customers. Further, the
33 Reorganization will not have any significant adverse effect on the Gas Companies’
34 transportation and retail choice programs, or competition in the markets over which the
35 Commission has jurisdiction. Also, I conclude that the five-year forecasts of the capital
36 requirements for the Gas Companies provided with my testimony comply with the
37 requirements of Section 7-204A(a)(7) of the Illinois Public Utilities Act (the “Act”).

38 **D. Itemized Attachments to Direct Testimony**

39 **Q. Are you sponsoring any exhibits with your direct testimony?**

40 A. Yes. I have attached the following exhibit to my testimony:

- 41 • Five-Year Forecast of Capital Requirements for The Peoples Gas Light and Coke
42 Company and North Shore Gas Company, attached as Joint Applicants’ Exhibit
43 (“Ex.”) 4.1 (CONFIDENTIAL and PUBLIC versions).

44 **E. Background and Experience**

45 **Q. Please describe your educational and business experience.**

46 A. I am a 1979 graduate of Georgetown University with a Bachelor of Science in Business
47 Administration. I received a Masters in Business Administration from the University of
48 Wisconsin – Milwaukee in 1993. I am a licensed Certified Public Accountant in the State
49 of Wisconsin. I was employed by Arthur Andersen & Co. from 1979 to 1990,
50 specializing in public utility taxation and ratemaking. From 1990 through 2002, I was
51 employed by Wisconsin Gas Company and, after Wisconsin Energy acquired WICOR,
52 Inc. in 2010, for Wisconsin Electric in various finance and operating responsibilities. I
53 served as Vice President – Regulatory Affairs of Wisconsin Public Service Company
54 from January 2003 to April 2010. Upon the formation of Integrys, I became Vice
55 President – Regulatory Affairs of Integrys, Peoples Gas, and North Shore. In April 2010,
56 I was promoted to Vice President – External Affairs of Integrys, Peoples Gas, and North
57 Shore. In January 2013, I assumed my current role as Executive Vice President and
58 Chief Financial Officer of Integrys.

59 **II. OVERVIEW OF INTEGRYS**

60 **Q. Please provide the Commission with an overview of Integrys.**

61 A. Integrys is a holding company that was originally formed in 1994, and established in its
62 current structure on February 21, 2007 with the merging of WPS Resources Corporation
63 and Peoples Energy Corporation (now Peoples Energy, LLC). Integrys presently owns
64 and operates six regulated natural gas and electric utilities that serve a total of 2.1 million
65 customers in Illinois, Wisconsin, Minnesota, and Michigan, plus a services company,
66 Integrys Business Support, LLC. The Illinois utilities are Peoples Gas and North Shore.

Integrys also presently owns and operates Integrys Energy Services, Inc. ("IES"), which provides competitive retail natural gas and electric supply to customers in 22 states, including Illinois, across the Midwest and northeast quadrants of the United States, and Trillium CNG, a leading provider of compressed natural gas fueling services. Integrys had total revenues in 2013 of \$5.6 billion, with a net income of \$350 million, and it employed approximately 5,000 people.

Q. Do you have any information concerning Integrys' future plans concerning IES?

A. Yes. On July 30, 2014, it was announced that Exelon Corporation ("Exelon") had entered into a definitive agreement to purchase IES from Integrys, except for IES' solar power generation business, which will be moved to another Integrys subsidiary. At the present time, the transaction is expected to close in the fourth quarter of 2014 or first quarter of 2015. As a result of the pending purchase by Exelon of IES, the part of IES that provides competitive supply of natural gas and electricity to customers should not be part of Integrys at the time the Transaction closes, and thus should not be part of the Reorganization.

Q. Do you have any updates concerning the status of any other Integrys subsidiary?

A. Yes. In January 2014, Integrys announced an agreement to sell Upper Peninsula Power Company ("UPPCo"), which is an electric utility servicing customers in the upper peninsula of Michigan. This transaction is expected to close in the third quarter of 2014.

Q. Please briefly describe the service territory and operations of Peoples Gas.

88 A. Peoples Gas is the natural gas public utility that provides natural gas distribution services
89 to approximately 829,000 residential, commercial, and industrial customers within the
90 City of Chicago, a service territory covering about 237 square miles with a population of
91 approximately three million people. Peoples Gas owns approximately 4,169 miles of
92 natural gas distribution mains, approximately 419 miles of natural gas transmission lines,
93 and a natural gas storage field, Manlove Field. Peoples Gas employs approximately
94 1,300 people, nearly all of whom work in the City of Chicago. These figures are as of
95 December 31, 2013.

96 **Q. Please briefly describe the service territory and operations of North Shore.**

97 A. North Shore is a natural gas public utility that provides natural gas distribution services to
98 approximately 160,000 residential, commercial, and industrial customers within
99 54 communities in a service territory of about 275 square miles in Lake and Cook
100 Counties, Illinois. North Shore owns approximately 2,271 miles of natural gas
101 distribution mains and approximately 96 miles of natural gas transmission lines, as well
102 as a propane-air facility used for peaking purposes. North Shore employs approximately
103 165 people. These figures are as of December 31, 2013.

104 **Q. How would you describe the manner in which the Gas Companies operate?**

105 A. Both Peoples Gas and North Shore have a history of providing adequate, safe, and
106 reliable service to the communities they serve. Both companies have demonstrated a
107 commitment to invest in their infrastructure to ensure that they can continue to provide
108 adequate, safe, and reliable service into the future. In particular, Peoples Gas has
109 undertaken its Accelerated Main Replacement Program (“AMRP”) to modernize its

distribution system in the City of Chicago by replacing its aging low-pressure system containing cast iron and ductile iron natural gas mains with a modern, medium pressure natural gas distribution system consisting of cathodically-protected steel and plastic natural gas mains. Modernizing the distribution system will bring benefits to Peoples Gas's customers, including increasing safety and reliability of service. Moreover, the Gas Companies have emphasized the creation of a safety culture for their workers, and improving the level of service they provide to their customers.

III. THE REORGANIZATION WILL NOT DIMINISH THE GAS COMPANIES' ABILITY TO PROVIDE ADEQUATE, RELIABLE, EFFICIENT, SAFE, AND LEAST-COST SERVICE TO THEIR CUSTOMERS

Q. Are you familiar with the testimony of Joint Applicants' witnesses Allen Leverett (Joint Applicants Ex. 1.0) and Scott Lauber (Joint Applicants Ex. 2.0) concerning the Reorganization and how it will be accomplished?

A. Yes, I am.

Q. Based upon the testimony of Mr. Leverett and Mr. Lauber, what impact will the Reorganization have on the operations of Peoples Gas and North Shore?

A. The Reorganization will have no impact on the day-to-day operations of Peoples Gas and North Shore. While the Gas Companies will have a new parent holding company – WEC Energy Group, Inc. – neither Peoples Gas nor North Shore will change their names, corporate forms, or locations. Peoples Gas and North Shore will continue to operate as Illinois public utilities subject to the Commission's jurisdiction and applicable Illinois law and regulation. No assets or property of the Gas Companies will be transferred. Peoples Gas and North Shore will maintain strong local management teams and local

133 service employees who are familiar with the Gas Companies' system and customers, to
134 ensure the continued provision of safe, reliable, efficient, and cost-effective utility
135 service.

136 Further, Wisconsin Energy has committed to honor the Gas Companies' existing
137 agreements with their labor unions, and to maintain a minimum level of employment here
138 in Illinois for a set period of time after the closing of the Reorganization. These
139 commitments will help ensure that the Gas Companies are able to maintain their high-
140 levels of customer service and provision of adequate, safe, and reliable utility service.

141 **Q. What changes, if any, will the Gas Companies' customers experience when the**
142 **Reorganization closes?**

143 A. Based upon the plans for the Reorganization and commitments of Wisconsin Energy
144 expressed in the testimony of Mr. Leverett and Mr. Lauber, the Gas Companies'
145 customers will notice no difference in their service as a result of the Reorganization.
146 Customers should experience no reduction in service quality in terms of service
147 continuity, call center availability, emergency responses, and related utility services.
148 Furthermore, the Gas Companies will retain the rates approved for them by the
149 Commission in their currently pending rate cases for at least a period of two years, as
150 described in Mr. Leverett's testimony.

151 **Q. In light of your testimony above and the testimony of Mr. Leverett and Mr. Lauber,**
152 **will the Reorganization diminish Peoples Gas' and North Shore's abilities to provide**
153 **adequate, reliable, efficient, safe, and least-cost public utility service?**

154 A. No. The Reorganization will not diminish Peoples Gas' and North Shore's abilities to
155 provide adequate, reliable, efficient, safe, and least-cost public utility service for their
156 customers.

157 **IV. ACCELERATED MAIN REPLACEMENT PROGRAM**

158 **Q. Please provide a brief description of Peoples Gas' AMRP.**

159 A. The AMRP is a 20-year program pursuant to which Peoples Gas plans to complete the
160 replacement of its cast-iron and ductile-iron natural gas mains and service pipes, as well
161 as upgrade its distribution system from a low pressure system to a medium pressure
162 system and relocate natural gas meters from inside customer facilities to outside, by
163 2030. The modernization of Peoples Gas' distribution system will increase the safety and
164 reliability of service for customers, as well as reduce operations and maintenance costs
165 over time and help reduce greenhouse gas emissions.

166 **Q. What is Peoples Gas' current plans and/or commitments with respect to capital**
167 **spending in furtherance of accomplishing the goals of the AMRP?**

168 A. Peoples Gas' current plans for 2014 call for the installation of 148 miles of new main,
169 15,216 services, and approximately 5 miles of new interstation main high pressure
170 piping, with 40,078 meters relocated to the outside of customers' premises and the
171 expected retirement of 112 miles of main, with AMRP additions of \$228 million.
172 However, due to the prolonged and unusually harsh winter weather at the beginning of
173 2014, the start of AMRP work in 2014 was delayed, resulting in Peoples Gas reducing its
174 forecasted amount of 2014 AMRP additions to \$216.9 million. Peoples Gas' current
175 plans for 2015 call for the installation of 131 miles of new main, 11,499 services, and

approximately 3 miles of new interstation main high pressure piping, with 20,456 meters relocated to the outside of customers' premises and the expected retirement of 88 miles of main. Peoples Gas' current plans for 2016 call for the installation of 124 miles of new main, 14,567 services, and approximately 2.5 miles of new interstation main high pressure piping, with 33,306 meters relocated to the outside of customers' premises and the expected retirement of 87 miles of main.

V. THE REORGANIZATION WILL NOT HAVE A SIGNIFICANT ADVERSE EFFECT ON COMPETITION IN ILLINOIS

Q. Is the Reorganization likely to have a significant adverse effect on competition in the markets over which the Commission has jurisdiction?

A. Based on the plans for the Reorganization and commitments of Wisconsin Energy discussed in the testimony of Mr. Leverett and Mr. Lauber, the Reorganization is not likely to have a significant adverse effect on competition in the markets over which the Commission has jurisdiction. There will be no changes to the Gas Companies' tariffs or procedures governing their natural gas transportation or retail choice programs as a result of the Reorganization. Moreover, at the time the Reorganization closes, it is expected that IES will have been divested and not be part of the new, post-closing company. The divestiture of IES will have no adverse impact on competition.

Q. Please provide a brief overview of the Gas Companies' traditional natural gas transportation program for commercial and industrial customers.

A. Both Peoples Gas and North Shore offer a Large Volume Transportation Program for commercial and industrial customers. Under this program, customers make natural gas purchases themselves or through energy management service companies or natural gas

suppliers, and arrange for its delivery to the Gas Companies' systems. The Gas Companies then use their distribution systems to deliver the natural gas to these large volume transportation customers, charging for this service pursuant to special tariffs applicable only to this rate class.

Q. Do you foresee any adverse effects on the Gas Companies' traditional natural gas transportation programs related to the Reorganization?

A. No.

Q. Please provide a brief overview of the Gas Companies' retail choice programs?

A. Both Peoples Gas and North Shore offer residential and small commercial customers a natural gas supply choice program called Choices For YouSM. Under this program, residential and small commercial customers can buy natural gas from gas suppliers while relying on the Gas Companies to deliver the natural gas supplies to their premises. At the present time, approximately 8% of the Gas Companies' residential and small commercial customers participate in their Choices For YouSM programs.

Moreover, a substantial number of natural gas suppliers have chosen to participate in the Choices For YouSM programs: nine natural gas suppliers participate in Peoples Gas' program and eight natural gas suppliers participate in North Shore's program. These suppliers offer a wide array of products and terms, such as fixed price per therm products, fixed bill amounts, and variable priced products.

Q. Do you foresee any adverse effects on the Gas Companies' Gas Companies' retail choice programs related to the Reorganization?

A. No.

221 **VI. FORECASTS OF CAPITAL REQUIREMENTS FOR THE GAS COMPANIES**

222 **Q. Section 7-204A(a)(7) of the Act requires that the Joint Applicants submit copies of**
223 **forecasts showing the capital requirements of the Gas Companies at the time of the**
224 **proposed Reorganization for five years following the year of applying for approval**
225 **of the Reorganization. Can you provide the information required by**
226 **Section 7-204A(a)(7) of the Act?**

227 A. Yes. Provided with my testimony are: Joint Applicants Ex. 4.1, which are the Five-Year
228 Forecasts of Capital Requirements for Peoples Gas and North Shore. This document
229 provides information for the five-year period 2015-2019, and it is my understanding that
230 this information fulfills the requirements of Section 7-204A(a)(7) of the Act for Peoples
231 Gas and North Shore.

232 **Q. Does the information shown in Joint Applicants Ex. 4.1 and Joint Applicants Ex. 4.2**
233 **assume that the proposed Reorganization takes place?**

234 A. No, it does not. The projections shown in Joint Applicants Ex. 4.1 and Joint Applicants
235 Ex. 4.2 represent the plans and projections of Peoples Gas and North Shore, respectively,
236 and their parent company, Integrys, assuming the merger agreement between Wisconsin
237 Energy and Integrys had not been entered into. However, it is my understanding, based
238 on the testimony of Mr. Leverett and Mr. Lauber concerning the plans for the
239 Reorganization, that Wisconsin Energy currently does not intend to change the capital
240 forecasts for Peoples Gas or North Shore as part of or immediately after the close of the
241 Reorganization.

242 **VII. CONCLUSION**

243 **Q. Does this conclude your testimony?**

244 **A. Yes, it does.**